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George Skelton Capitol Journal

Fiscal triage needed to stop flow of red ink

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SACRAMENTO — When you take a close-up look at the red ink gushing from the state Capitol, it becomes a very ugly sight.

For starters, the problem is worse than first thought.

Nonpartisan Legislative Analyst Elizabeth G. Hill last month projected a nearly \$10-billion deficit spread over the current and next fiscal years. Then last week, reports leaked that the Schwarzenegger administration, with updated numbers, is projecting a \$14-billion deficit. Actually, it's \$14.5 billion.

Add to that some minimal reserve any prudent budget should include -- say, at least \$1 billion -- and it's a \$15.5-billion hole that must be filled next year.

Numbers change every week in Sacramento and nobody can really be sure of anything -- except that dramatic steps must be taken: steep spending cuts and/or unpopular tax increases.

"No way, Jose," vows Senate Republican Leader Dick Ackerman of Irvine. "No tax.

"They'll scream, but we've got to make the cuts. We've been telling Democrats and telling the governor that for four years. Maybe now they'll believe us."

Fine, but let's put this amount of cutting in perspective.

Our lawmakers could free all the inmates and shut down the prisons and that still wouldn't come close to balancing the budget. They'd also have to sever almost all state money to the University of California and state university system.

If they stopped providing Medi-Cal healthcare for poor people, including children, that wouldn't be enough.

Knock people off welfare? OK, if the state eliminated most welfare-type programs for poor people -- single moms with kids, the mentally ill, the aged, blind and disabled -- that would fill only two-thirds of the projected deficit hole.

Gov. Arnold Schwarzenegger presumably won't be proposing such drastic steps as eliminating entire programs. Advisors say he'll try to pare everything, aiming for average 10% cuts. He is expected to ask the Legislature to "suspend" Proposition 98, the law that guarantees schools roughly 40% of the state general fund, projected next year at \$111 billion.

The governor, heeding the advice of Republican lawmakers, finally signaled on Friday that he'll declare a "fiscal emergency" and propose sharp cuts in the current budget when the Legislature reconvenes Jan. 7. His proposed spending plan for the next fiscal year is due Jan. 10.

For good measure, Schwarzenegger will call the Legislature into "special session" after the holidays. Normally, that would be mostly for show. But in a "fiscal emergency" session, if the Legislature doesn't act within 45 days, it is barred from moving on other bills.

A worse penalty for the politicians, however, would be the public's angry reaction if they failed to get a jump-start on plugging that two-year deficit hole.

A poll by the Public Policy Institute of California last week showed that 43% of likely voters would prefer that Sacramento fill the gap mostly with spending cuts. But nearly as many, 41%, support a mix of cuts and tax hikes.

The two Democratic leaders of the Legislature -- Assembly Speaker Fabian Nuñez of Los Angeles and Senate President Pro Tem Don Perata of Oakland -- already are calling for tax increases.

"I don't think the way you get out of this is simply do a poll and see what's popular with voters and what isn't," Nuñez told reporters. "This is a time for real leadership, for having real honest conversations with voters."

Nobody in the Capitol except Republicans -- if you can believe them -- really thinks the budget can be honestly balanced without raising taxes. I especially don't accept that Schwarzenegger believes it. He just doesn't have any confidence in being able to talk skittish GOP lawmakers into voting for a tax hike. And some would need to in order to reach the necessary two-thirds majority vote.

It's long past time, however, to stop living in denial and demagoguing. If there's wasteful spending, chop it. But that won't balance the books. That much chopping wouldn't be politically feasible or publicly acceptable.

The governor and Legislature should -- but likely won't -- seize this opportunity to restructure the tax system, to make the revenue roller coaster less volatile in times of boom and bust.

State Treasurer Bill Lockyer -- a former legislative leader and potential candidate for governor in 2010 -- weighed in Friday, suggesting that the sales tax be extended to some services. That could raise many billions.

California's sales tax on goods was designed for the mid-20th century and ignores the fact that our economy increasingly relies on sales of tax-exempt services.

The erratic roller coaster also is fueled by a system that depends on the wealthy paying too high a percentage of the state income tax. Their taxable incomes rise and fall steeply with the economy. In 2005, people making more than \$100,000 comprised only 14% of all taxpayers but paid 84% of the income tax. Even more striking, million-dollar earners amounted to a mere one-third of 1% of taxpayers, but paid 36.5% of the tax. Middle-income taxpayers need to kick in more to smooth out and stabilize the revenue flow.

The property tax is low -- not only for homeowners, but for corporations, which aren't paying their fair share.

Schwarzenegger did himself in four years ago when he ceremoniously cut the car tax and pushed through legislation that zapped a governor's power to raise the tax on his own. That popular move currently is costing the state \$6 billion annually.

The governor has privately informed the school lobby that 2008 won't be "the year of education reform" after all, despite his earlier promise. There simply isn't any money.

And there's no time. There's a giant gusher of bubbling red ink to plug. Little else matters.

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